



A tool to help you recommend the right plan

Health Savings Accounts (HSAs) and Health Reimbursement Arrangements (HRAs) create exciting new group medical insurance sales opportunities. Employers want the premium savings provided by switching to the high deductible plan that is combined with an HSA or HRA. This premium savings can be used to help offset the financial impact of the high deductible for employees. Employers financially assist employees through HRA expense reimbursements or HSA account contributions.

<p align="center">HSAs <i>(Health Savings Accounts)</i></p>	<p align="center">HRAs <i>(Health Reimbursement Arrangements)</i></p>
<ul style="list-style-type: none"> ■ Can be funded by employer, employee <i>or</i> both 	<ul style="list-style-type: none"> ■ Employer funded
<ul style="list-style-type: none"> ■ Contributions are tax deductible; if made by the employer, they are not subject to FICA tax 	<ul style="list-style-type: none"> ■ Reimbursements are tax deductible to the employer
<ul style="list-style-type: none"> ■ Available to any size group and individuals 	<ul style="list-style-type: none"> ■ Available to any size group; not available to partners and employees who own more than 2% stock in S corp
<ul style="list-style-type: none"> ■ Employee owns funds regardless of who made contribution and funds are portable 	<ul style="list-style-type: none"> ■ Employer can retain ownership of funds if employee terminates
<ul style="list-style-type: none"> ■ The account needs to be funded in order for an employee to make a withdrawal 	<ul style="list-style-type: none"> ■ Employer does not need to pre-fund an account
<ul style="list-style-type: none"> ■ Federal legislation sets many of the HSA parameters: <ul style="list-style-type: none"> – plan design including deductible ranges, out-of-pocket maximums and first-dollar benefit limitations – contribution maximums – types of qualified medical, dental and vision expenses* – no employee income tax on funds withdrawn for qualified expenses* – employees decide whether to withdraw or accumulate funds. 	<ul style="list-style-type: none"> ■ They provide greater flexibility in plan design and greater control of cash flow. <p>The employer determines:</p> <ul style="list-style-type: none"> – the plan type and payment structures – the maximum reimbursement amount – the types of qualified expenses to be reimbursed (e.g. medical only, deductible only)* – who pays for deductible expenses first – the employer through the HRA or the employee – carry-forward capabilities, amounts and caps – the timetable for making contributions, if employer is pre-funding.
<ul style="list-style-type: none"> ■ HSA funds can be placed in a wide range of investment vehicles. 	

*Qualified medical expenses are defined by the IRS in Publication 502, available at www.irs.gov or by calling 800-TAX-FORMS.



Smaller, family-owned-and-operated businesses

An employer in this situation may want to provide major medical coverage and allow his/her family members to accumulate funds placed in the HSA. The employer can use the premium savings realized in switching from a low deductible plan to a high deductible one to fund the HSA. The funds then belong to the employees – in this case the family members. Accumulated funds can be used to cover future medical expenses, to pay for a long term care plan or to supplement retirement income.

Groups of highly compensated professionals such as attorneys and physicians

In these groups, the owners may be most interested in maximizing benefits and tax savings. The owners can pay for the insurance premiums with tax-deductible dollars and make tax-deductible contributions to HSAs. Being highly compensated, many of the employees may prefer to pay for ordinary medical expenses with out-of-pocket funds and let their HSA funds accumulate while earning tax-deferred interest.

Groups in which employees share in health insurance premium

Many employers have employees pay part of the premium costs. Employers switching to a high deductible plan may be able to pay the entire premium without increasing their outlay and let the employees contribute to their own HSAs. Employers can save money and employees are typically pleased because they are saving money for themselves instead of paying premium to an insurance company.

Partners or shareholders in a Subchapter S Corporation

Generally, partners and sole proprietors are considered self-employed individuals. In addition, a shareholder/employee who owns more than 2% of stock of an S corporation is treated as a partner for purposes of applying the fringe benefit rules. Therefore, these individuals may not qualify for a HRA. They should be able to set up HRAs for their employees and establish an HSA for themselves.

Groups with employees who have different needs

A high deductible/HSA combination may not be right for everyone in a group. The Employee Choice Program allows an employer to establish up to four plans to meet different needs. The employer can determine how many of the plans will be HSA-qualified and may even offer a specially designed HRA plan as an alternative. Employees then select from the plan offerings and choose whether or not to enroll in an HSA plan.